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January 22, 1998

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Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Oral Ex Parte Presentation -
CC Docket No. 96-45

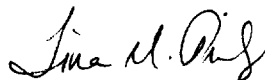
Dear Ms. Salas:

Puerto Rico Telephone Company ("PRTC") hereby gives notice of an oral ex parte presentation in the above-referenced proceeding. The arguments delivered in that presentation are summarized in the attached materials.

PRTC's presentation was made to Commissioner Gloria Tristani and Paul Gallant of her staff.

The original and one copy of the memorandum are submitted with this letter pursuant to Section 1.1206(b)(2) of the Commission's Rules, 47 C.F.R. § 1.1206(b)(2).

Sincerely,



Tina M. Pidgeon

Enclosures

cc: Commissioner Gloria Tristani
Paul Gallant

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List A B C D E

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Line counts by Exchange
PRTC USF Data Request Sept 1997 vs. Hatfield 5.0

Exch Name	PRTC	Hatfield	Hatfield-PRTC Difference	Hatfield/PRTC % Diff
Adjuntas	4,408	6,804	2,396	49.83%
Aguada	8,846	12,747	3,901	44.10%
Aguadilla	18,543	20,279	1,736	9.36%
Anasco	5,262	146	(8,116)	-97.86%
Arecibo	31,889	40,119	8,250	25.89%
Arroyo	9,062	14,100	5,038	55.59%
Barceloneta	6,147	8,618	2,471	40.20%
Barranquitas	6,866	7,758	892	13.00%
Bayamon North	78,898	108,999	30,101	38.15%
Cabo Rojo	13,234	17,124	3,890	29.39%
Camuy	15,913	20,955	5,042	31.69%
Canovanas	14,553	23,205	8,652	59.45%
Carolina	68,231	90,038	21,807	31.96%
Catano	9,339	55,008	45,669	489.01%
Celba	6,937	7,752	815	11.75%
Ciales	4,139	5,853	1,714	41.41%
Coamo	7,599	11,123	3,524	46.38%
Comerio	4,561	6,555	1,994	43.72%
Corozal	8,477	10,509	2,032	23.97%
Coroico	8,214	13,180	4,966	60.46%
Fajardo	14,384	19,382	4,998	34.65%
Florida	2,209	2,828	619	28.01%
Guanica	3,804	8,316	4,512	118.82%
Guayama	8,570	19,243	10,673	124.54%
Guayanilla	4,758	7,183	2,425	50.97%
Hormigueros	3,477	7,729	4,252	122.28%
Humacao	19,310	24,841	5,531	28.64%
Isabela	10,727	12,908	2,181	20.34%
Jayuya	3,221	4,340	1,119	34.75%
Juana Diaz	8,554	14,944	5,390	59.41%
Lajas	7,730	8,635	905	11.71%
Lares	6,139	8,365	2,226	36.26%
Las Marias	2,103	2,482	389	18.52%
Luquillo	5,978	7,643	1,667	27.90%
Manati	12,965	13,810	845	6.36%
Maricao	1,372	1,655	283	20.64%
Maunabo	2,840	4,038	1,198	42.19%
Mayaguez	35,345	46,561	11,216	31.73%
Moca	7,558	10,345	2,787	36.88%
Morovis	5,323	7,481	2,158	40.54%
Naguabo	5,499	10,006	4,507	81.96%
Naranjito	7,081	9,015	1,934	27.13%
Orocovis	4,853	6,061	1,208	24.89%
Penuelas	4,533	7,855	3,322	73.28%
Ponce	55,821	87,314	31,493	56.42%
Quebradillas	5,880	7,423	1,543	26.03%
Rincon	3,879	13,188	9,309	239.48%
Rio Grande	12,949	18,027	5,078	39.22%
Sabana Grande	8,205	10,519	2,314	28.20%
Salinas	6,946	13,288	6,342	91.30%
San German	9,783	15,156	5,373	54.92%
San Sebastian	10,538	14,033	3,495	33.18%
Santa Isabel	10,418	8,567	(1,851)	-17.75%
Toa Alta	23,758	16,312	(7,446)	-31.34%
Trujillo Alto	39,464	28,114	(11,350)	-28.76%
Utueo	7,983	12,184	4,201	52.62%
Vega Alta	10,003	11,909	1,906	19.05%
Vega Baja	17,140	21,196	4,056	23.66%
Villalba	4,801	5,595	794	16.55%
Yabucoa	8,000	11,155	3,155	39.44%
Yauco	10,515	13,943	3,428	32.60%
San Juan*	186,660	271,628	104,968	62.98%

Total PRTC 932,218 1,325,883 393,665 42.23%

* San Juan Exch	
Caparra	85,043
Isla Verde	9,934
Rio Piedras	12,949
Santruce East	28,674
Santruce West	50,060

Exch Name	PRCC	Hatfield	Hatfield-PRCC Difference	Hatfield/PRCC % Diff
Agua Buenas	5,885	7,317	1,422	24.13%
Albionito	7,084	8,174	1,090	15.39%
Caguas	47,346	50,796	3,450	7.29%
Cayey	14,892	16,426	1,434	9.57%
Cidra	6,805	10,572	3,767	60.06%
Culebra	684	695	11	1.58%
Guaynabo	37,775	41,497	3,722	9.85%
Guarabo	6,303	9,336	3,033	48.12%
Juncos	7,584	10,462	2,878	38.32%
Las Piedras	7,970	8,177	207	2.59%
San Lorenzo	9,063	9,864	801	8.84%
Vieques	3,111	3,382	271	7.74%

Total PRCC 154,392 176,669 22,277 14.43%

Total PRTC	Hatfield	Hatfield-PRTC Difference	Hatfield/PRTC % Diff
Total Company	1,086,610	1,802,552	415,942 38.28%

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

PUERTO RICO TELEPHONE COMPANY

**UNIVERSAL SERVICE
PRESENTATION**

JANUARY 1998

BACKGROUND

- The service penetration rate in Puerto Rico is 76 percent. The national average is 94 percent.
- Affordable telephone service must be available according to needs in Puerto Rico, where the annual per capita income is approximately one-half of the national per capita income.
- PRTC's efforts to provide universal service have been supported with the help of universal service funding and long term support.
- In 1997, PRTC received approximately \$ 107 million in combined federal support.

PROXY MODEL METHODOLOGY

- As of January 1, 1999, total federal support will be calculated for non-rural LECs using costs estimated by a proxy model.
- The proposed models do not produce reasonable results for Puerto Rico: the Hatfield model results in approximately \$171,000 in federal support, and the BCPM results in slightly over \$9 million in federal support.
- The model outcomes result in respective reductions to one-tenth of the present support (BCPM) and one-thousandth of PRTC's current federal support (Hatfield).
- In addition, PRTC is obligated to contribute \$9,490,857 to the federal fund, completely offsetting any federal support generated by either model.

SOLUTION

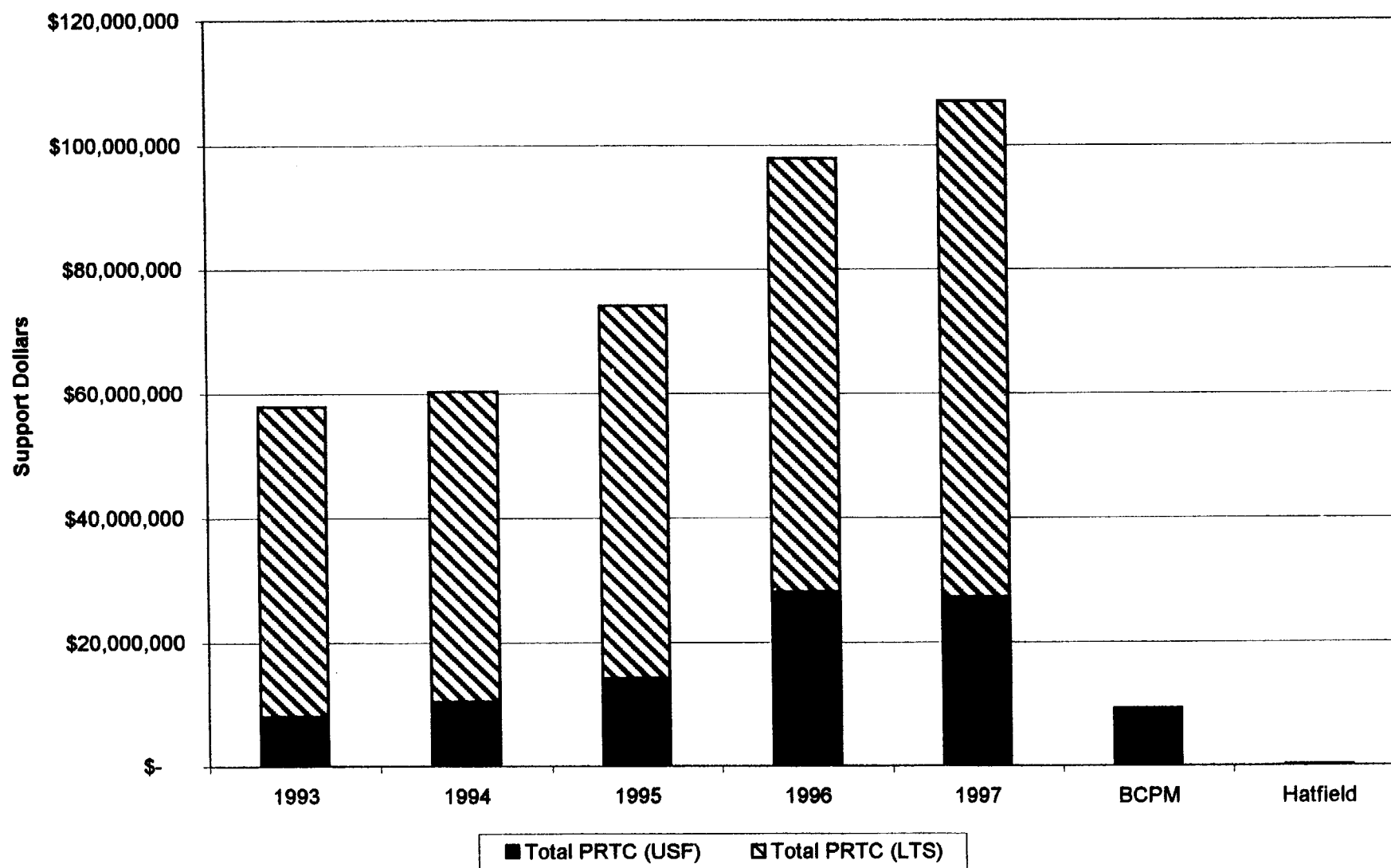
- PRTC should be subject to the same schedule for transition to a proxy model methodology established for rural carriers.
- This solution is consistent with Commission findings and the Communications Act:

The Commission delayed transition for rural carriers "because the cost models in the record of this proceeding produced a higher margin of error for rural carriers." USF Fourth Order on Reconsideration, ¶ 78. The same is true for PRTC.

The Commission must ensure affordable universal service for insular areas. Sec. 254(b)(3). This may be done by treating insular and rural carriers similarly. **PRTC serves an insular area.**

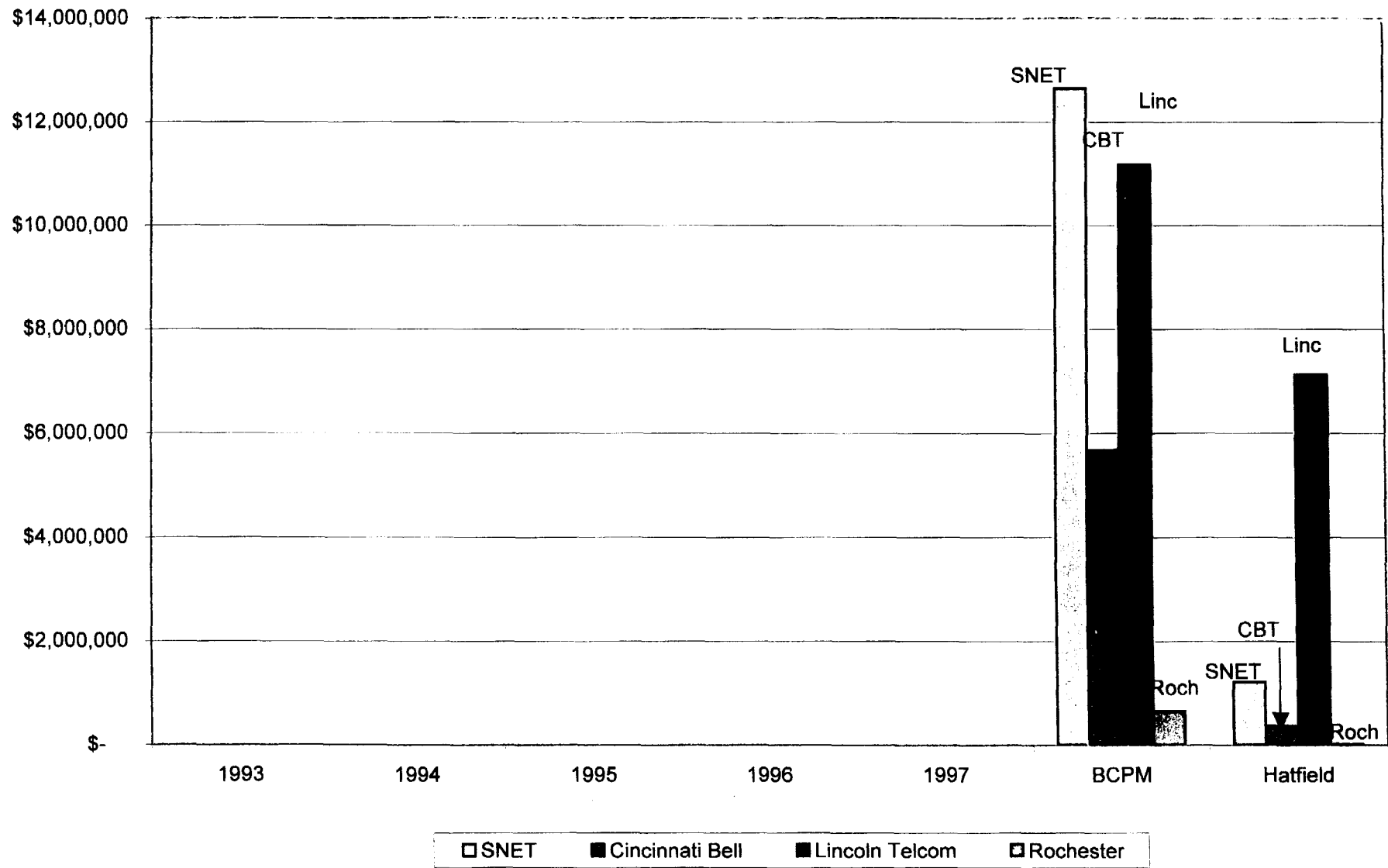
The Commission recognized the possible need to adjust the schedule for non-rural carriers serving insular areas if information for these areas was not included in the economic cost models. USF First Report and Order, ¶ 317. Puerto Rico data was not included in the models until mid-December, 1997. The model results clearly show that the models and the data inputs are deficient in predicting the cost for serving Puerto Rico. **The schedule for non-rural carriers serving Puerto Rico must be adjusted.**

PRTC: USF High Cost Support

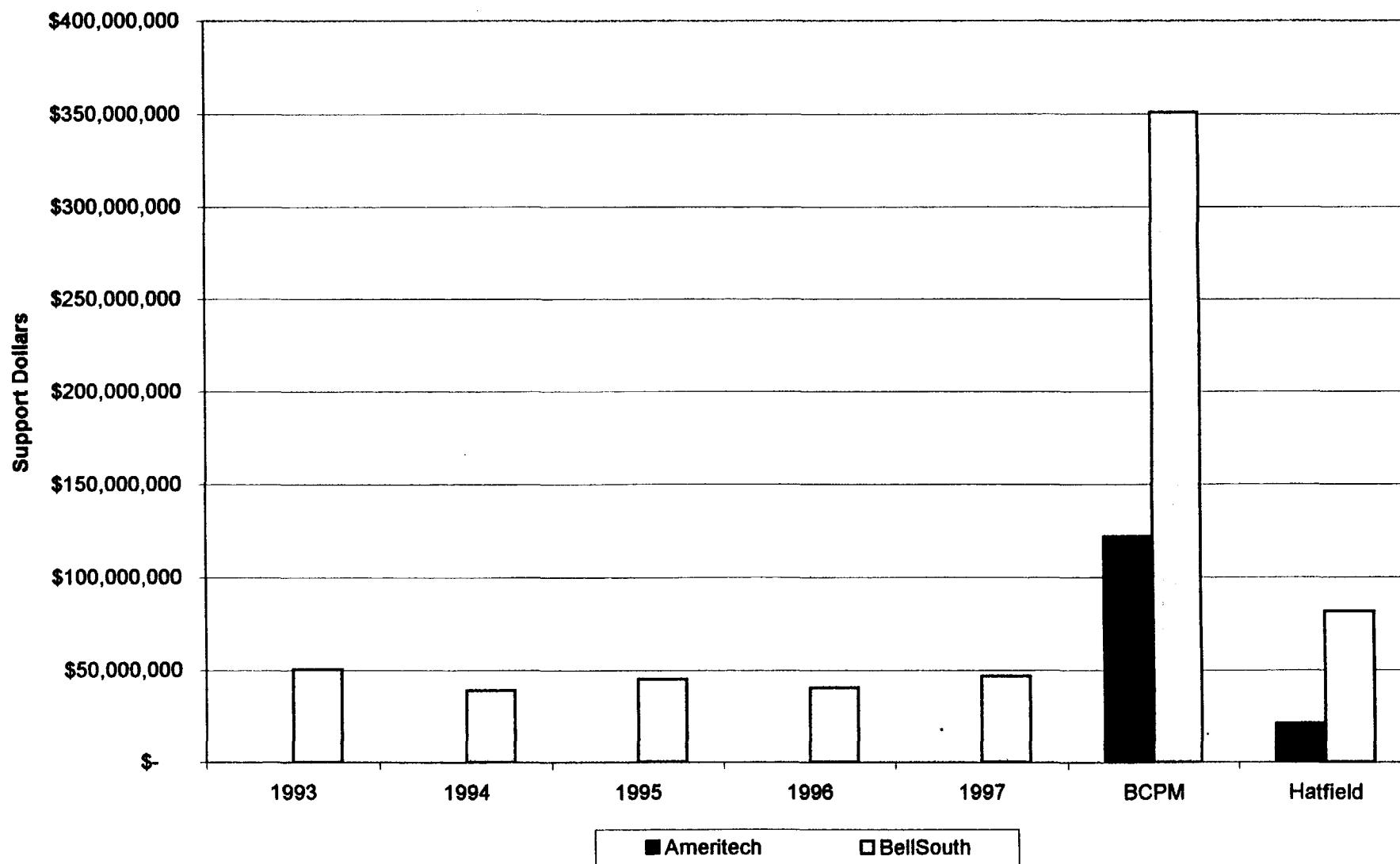


Source: FCC 1996 Monitoring Report, Table 3-14

USF High Cost Support



USF High Cost Support



USF Comparison
History

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
SNET	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,652,850	\$ 1,220,730
Cincinnati Bell	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,680,952	\$ 378,529
Lincoln Telcom	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,183,061	\$ 7,130,118
Rochester	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 654,025	\$ 20,215
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
Ameritech	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,850,824	\$ 21,165,966
BellSouth	\$ 50,307,450	\$ 39,064,141	\$ 45,035,477	\$ 40,482,465	\$ 46,705,764	\$ 350,758,371	\$ 81,310,307
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>BCPM</u>	<u>Hatfield</u>
Total PRTC (USF)	\$ 7,865,549	\$ 10,351,906	\$ 14,104,783	\$ 27,838,000	\$ 27,014,415	\$ 9,263,835	\$ 171,255
Total PRTC (LTS)	\$ 50,000,000	\$ 50,000,000	\$ 60,000,000	\$ 70,000,000	\$ 80,000,000	\$ -	\$ -

Proxy Model Data: Hatfield 5.0
 BCPM 3.0

Historical USF Data: FCC Monitoring Report, Table 3.14

Universal Service
Fourth Order on Reconsideration
Released December 30, 1997

Long Term Support (LTS)

Excerpts from Para 74

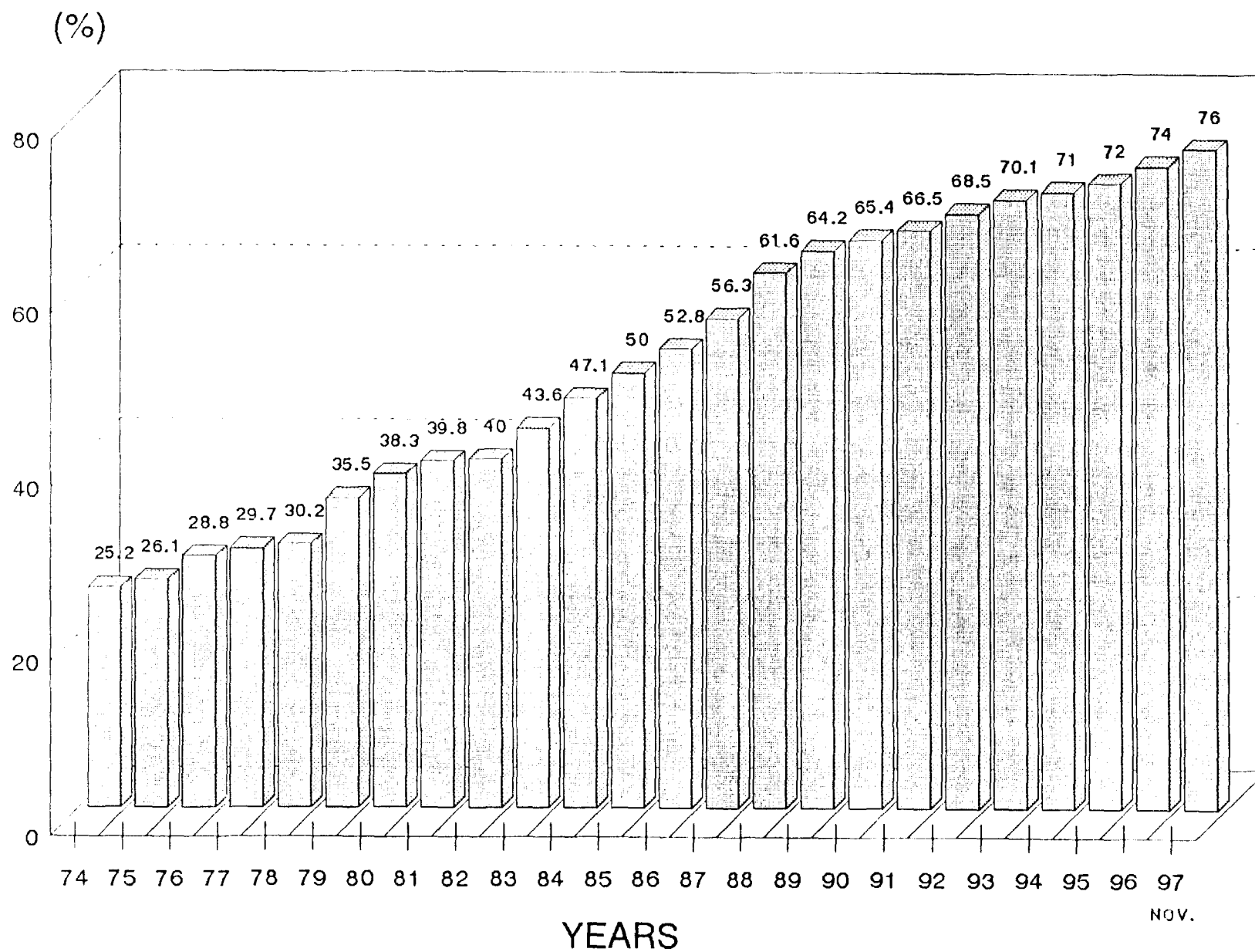
- * Commission reiterates that rural carriers will continue to retain many features of current support mechanism.
- * This will allow sufficient time to adjust to any changes in universal service support, particularly a move to forward looking economic cost models.
- * Continued LTS for rural carriers serves the public interest by reducing CCL charges assessed to IXC's and thereby facilitating interexchange service in high cost areas consistent with the express goals of section 254.

Without LTS, PRTC CCL rate could exceed \$0.05 per MOU in year 2000

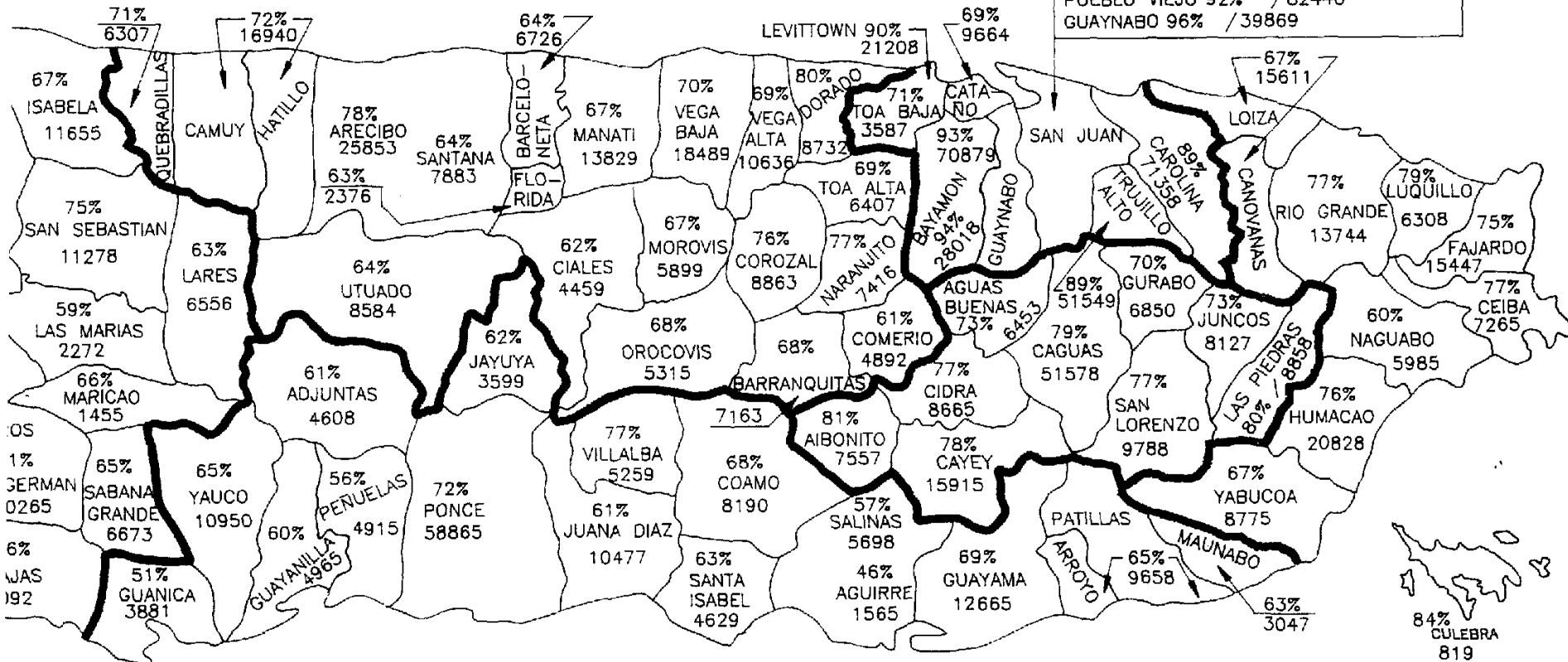
Excerpts from Para 78

- * Cost models in the record of this proceeding produced a higher margin of error for rural carriers. The Commission concluded that rural carriers should not begin their transition to use forward looking economic cost mechanism when the non-rural incumbent LECs transition to their new mechanism in 1999.
- * We cannot ensure that rural carriers would receive appropriate levels of support if we allowed them to receive support calculated using the forward looking economic cost for non-rural carriers.

TELEPHONE PENETRATION PER 100 HOUSEHOLDS



PERCENTAGE OF HOUSEHOLDS WITH A TELEPHONE TOTAL ACCESS LINES IN-SERVICE NOVEMBER 1997



CTS

/ 601,938
/ 176,769
/ 152,971
/ 93,963
/ 162,299
/ 128,015

TOTAL P.R.T.C. = 76%
1,315,955

PUERTO RICO

